ECONOMIC PLACE OF LIFE INSURANCE AND ITS RELATION TO SOCIETY

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The foundation of life insurance is the recognition of the value of a human life and the possibility of indemnification for the loss of that value. This is essentially a modern conception. While some recognition of the value of life has obtained for centuries, it was reserved for the nineteenth century to really recognize the principle of indemnification. Those earlier years recognized that certain lives possessed large value, but the bulk of the population did not seem to possess value, so long as the work laid down by one individual could be taken up by another. The thought of perpetuating the economic value of life did not occur to those men of an earlier day. It is not the purpose to trace the history of life insurance in detail, but simply to note a few of the features which bear upon the place of life insurance in social economy. For this purpose, life insurance may be treated as a nineteenth century development, since the history of life insurance before the nineteenth century is of but little importance from the economic standpoint. In order to treat the subject in a logical way, the first consideration will be the foundation stone, namely, the value of a human life. Then naturally follows life in its associated forms of the family and the state. Next will come the means for securing protection of the value of the individual life and the bearing which that has upon the life of the community, and, finally, how this affects the industrial, political and financial life of the country.

The foundation, then, of all life insurance, is the value of the individual life. This is true, though, in order to transact the business, a large enough group of lives to permit the working out of the law of average is necessary. Beginning with the individual, enough are grouped together to permit the determination of mor-

tality experience, cost of transacting the business and ensuring the security of the contracts. In considering the value of life, there are two classes, namely, producers and consumers. While these classes intermingle to a certain extent, and some individuals belong to both classes, every individual belongs to at least one. The producer belongs to both classes, producing that he may consume and consuming that he may produce. The consumers who do not produce may be divided into three classes: First, those who cannot produce; second, those who will not produce, and, third, those who do not have to produce. These three classes are dependent upon the labors of the working portion of the community.

Out of the relations of producers and consumers grow all the many forms of human activity. It is the purpose of this lecture to consider only a few of the fundamentals which govern the economic relations of man. The first of these relations is that of interdependence. Not infrequently we hear the statement made by a man that he is independent of the whole world. He may think this to be true, but it is not. Furthermore, it ought not to be true. If a man's work be not related to some other man's work or to some other man's enjoyment, a large part of its value is lost. What is the vital nerve of man's activity? In a word, it may be said to be that which causes a man to do the best he can that he and those dependent upon him may have a just measure of comfort and enjoyment. Many things which a man might not care to do, so far as he is concerned, he will gladly do for the sake of those whom he is bound to by ties of interest and affection. This interdependence gives to every life an economic value. The helplessness of infancy and old age, the demands of the cripple and the invalid, are continually speaking to us in a way which cannot be ignored. These non-producers require the aid of the producers for their continued existence. There is no profounder economic saying in all literature than that of the Apostle Paul, that "no man liveth to himself alone."

As a life has a distinct economic value, as related to other lives, so the development of a life must of necessity be of general interest. This truth should be kept closely in mind in all considerations of life insurance as an economic factor. Many persons say that it makes no difference to them what happens to some one of whom they have no knowledge, and that consequently their action can have no bearing on the welfare of that unknown person. This is a fallacy,

proven to be such by the ordinary current of life. A famine, a flood, a pestilence, may affect persons whose names we do not know and never expect to know, but the misfortunes of these unknown persons appeal to us in such a way as to secure a prompt response. An injury to the people of Maine is an injury to the people of Pennsylvania. A famine in India secures contributions in America. Persecutions in Armenia awaken general interest in other portions of the world. Misfortunes in the mass appeal to us, but mass misfortunes do not touch nearly as many lives as what may be termed individual misfortunes. The man who suffers in an adjoining neighborhood, city or state, is a burden upon the rest of his community. The wide distribution of misfortunes is real. The community's burden from this source is continuous, and this is the great reason for the development of life insurance. The individual owes a duty to himself, to his family and to the state. One cannot live a life of average duration and average activity without creating responsibilities which must extend beyond the period of his life. If he cares for those responsiblities, so that when he ceases to be a producer those who have been dependent upon him shall be cared for by the provision which he has made, then his duty has been performed. If he fails in making such provision, he has not performed his whole duty.

The second point is life in its associated forms of the family and the state. When a man has money invested in buildings and personal property, he endeavors to protect himself against the possibility of damage through the loss of the property. He does this not simply because of the money involved, but because the loss would have an adverse effect upon his business and those dependent upon him. It is a commonly accepted truth, which is embodied in our laws, that a man may not do as he pleases with his property or his life, if doing as he pleases in these regards will injure his fellows. This proposition is one of the main foundations upon which society rests. Is there any greater necessity for protection in the matter of property and life than of the value of a life? What can take the place of a life? Nothing, save another life equally well equipped. The life has found its place in the community, is doing its work, caring for its responsibilities, through its earning power. When a man moves from one community to another and leaves behind him unsatisfied obligations, which he

might have satisfied, men do not speak well of him. Is it more to a man's credit to journey from one world to another leaving unsatisfied obligations which might have been satisfied? How do these obligations affect the world in which a man lives and moves? In the first place, they affect his family. The family is dependent upon the man as the chief bread-winner. A large proportion of the family is likely to be non-earning and, all too frequently, not equipped for the immediate securing of enough money for support. Each one of these dependent ones is a sort of note of life, and when a man lays down his work without having made provision, these notes, so far as his estate is concerned, are protested. If this were all, life insurance might not be so much of an economic factor. These notes of life, however, must be paid by someone, to a greater or less extent. They may be shaved, they may be protested, but somebody must pay a certain proportion of them, at all events. What a man fails to do, the state must do; therefore, the man's family creates a burden which the state may have to carry. This burden is twofold. In the first place, it is one of support. There must be bread and butter, clothes, enough to live on, and if the estate of the man who created the burden is not sufficient, the state must step in. The second burden is one of equipment. Every man owes to the state the best possible service. If a man fails in securing the proper equipment, then he will not do the best possible work. The dependent ones will enter the race of life handicapped, and the state—that is, the people in an associated capacity—loses by the operation. Therefore, the family has an economic demand upon the head of the house for an even opportunity in the race of life. Second the state has a right to demand that each man shall do his share. The fulfillment of this obligation cannot be secured by legislative enactment. It must be secured, if secured at all, through the feeling of responsibility on the part of the individual. The state is privileged to say that man shall not lay undue burdens upon it. Man, the family and the state are all bound up in such a way that they cannot be separated. Anything which tends to make this burden less, to insure larger opportunity, better equipment for work, is an economic help of the highest importance. Such help, under our civilization, is rendered best and most completely through life insurance. Every family in which there is a life insurance policy is of more value to itself and to society by the proportion which the amount of that

policy bears to the amount needed for the fulfilling of the man's obligation. This truth is a universal one; it applies with equal force to the man who is able to buy a million dollars of insurance and to the man who is able to buy only a hundred dollars of insurance. Neither one may have enough life insurance, yet what he possesses of life insurance is a step in the direction of the fulfillment of duty. Life insurance is, therefore, the means provided in our civilization for insuring that life shall reach its highest efficiency so far as the individual is concerned, with all that that implies, upon society as a whole. The work which it is doing cannot be done so well through any other means as yet devised. It is a primal factor and is the foundation stone upon which the protection and continuance of the power of life is based.

We will now consider the means employed for protecting the value of the life. Life insurance companies furnish the means. They gather up the contributions of the many and disburse them as they are needed. Here we come into contact with another phase of our question. Man, on the whole, will not save, except under pressure. A man has a certain income, and the tendency is to spend that income as it comes along, trusting to the future to provide a continuance of it. Some people save something for the future. They put their money into savings banks, building and loan associations, buy lands and houses. Such saving is purely voluntary, and if the man does not find it convenient to put a hundred dollars into a savings bank this month, he is likely to say, "I will put in two hundred dollars next month," and the chances are that next month he will only put in one hundred dollars. Life insurance requires the payment of the savings at stated intervals. The man comes to treat his life insurance premium somewhat as a man would treat the interest on a mortgage or a note. He knows when it falls due, and he is prepared to meet it. To sum it up in a word, life insurance forces thrift. This may be thought to be rather a strong word, but it seems as though the word "encourage" is not strong enough. Now, the encouragement of thrift is recognized as an important factor in social and material economics. Its importance is urged over and over again by writers on political economy and sociology, as making for the well-being of society. There is no line of business to-day which so patently enforces the lesson of thrift as life insurance. Take the millions of policyholders of industrial life insurance companies with

the agents calling for their weekly collections; take the millions of policyholders of level premium companies, with premiums falling due annually, semi-annually and quarterly, all a most practical kind of thrift lessons, and it is almost impossible to measure the economic value of these collections to society. The collection of ten cents a week or fifty dollars a year, or two hundred dollars a year, or five hundred dollars a year, from individuals, does not seem to be a great deal when standing by itself, but when it is aggregated the sum almost staggers us by its immensity. All this vast sum of money is savings. Economically, it is the act of the individual making provision for the responsibilities which he has created. It differs only in form from the obligations which a man assumes when he purchases property and gives a mortgage to secure future payments. In the case of the mortgage he has the money in hand, pays interest on it, and at a future date pays the principal. In life insurance, on the other hand, he pays the interest as he goes along, and upon the happening of a certain contingency he or a certain person or persons whom he designates receive the principal. Either form of treatment is a method of saving, a method of increasing the accumulated wealth of the country. The main thing is that out of the earnings of the producer a certain amount is set aside for future use. There is an old proverb that money saved is money earned. It is not what passes through a man's hands, but what he holds on to, that gives him a competency. The holding on is difficult, and any device which helps a man to hold on to his earnings and turn them into earning capital makes for the prosperity of the country and the strengthening of its economic power. Nothing so far has been devised which enables so large a proportion of persons to save under such easy conditions as life insurance, hence its high rank in economic life.

How large a portion of a man's income should he invest in life insurance? This is a practical question. Every man must judge according to his opportunities and obligations. A broad general rule may be given which will help to keep a man up to the mark of his obligation. A man's life insurance should be large enough, when invested at the current rate of interest, to produce an income half as large as he earned in his lifetime. This is minimum, not maximum. To illustrate: A man is earning $1,200 a year. The bread-winner of a family is responsible directly for the expenditure

of a large portion of his income. Estimates of this expenditure run from one-third to one-half of the income. On the half basis, there should be at least a continuation to the family of six hundred dollars of the annual income. To provide will require, at the normal rate of 4 per cent., the sum of fifteen thousand dollars; that is, the man, to secure this income to his family, should carry fifteen thousand dollars of life insurance. What will this cost? For the young man of twenty-one, for whole life policies, about $300 a year; for limited life policies or long-term endowments, about $450 a year, while for renewable term policies, in the neighborhood of $180 a year. Beginning at this period of life, the amount can be gradually provided for so that when the income amounts to $1,200 the fifteen thousand will not be such a burden as if it had been taken all at once. As the income increases, the amount can be increased. If the young man takes limited payment or endowment policies, those taken at the first will become paid up or have matured by the time middle life is reached, and he can begin to rest easy as to responsibilities which need caring for. It then becomes a case of provision made and premiums paid.

Another phase of this part of the subject, which is of high importance, is the conditional element. By this is not meant that the payments to the beneficiaries are conditional as a final fact, but that they are conditional in this, that the principal sum may be paid after one year's interest has been turned over, and it may not be paid until twenty years' interest has been paid over. It is certain as regards payment and it evens up the chances of life by providing for a payment of the principal sum no matter whether few or many payments have been made. It has this advantage over the purchase of property for which a mortgage is given. In the latter case, the money must be paid either by the buyer or his heirs. In the former case, it is all paid in the policyholder's lifetime, no matter how short his life may be, after the first payment is made. While it would seem at first sight as though this were an injustice to the man who pays for a long period, still life insurance is so balanced and the computations are made upon such a basis that the average is fair to all.

The next point of view touches life insurance as an economic factor in the material development of the country. In modern life accumulated capital is a great power. One hundred thousand men

each possessed of $1,000 of capital can only avail themselves of investments of the thousand-dollar class. This limitation cuts out many excellent investments from the individual possessed of small capital. He sees something which promises good returns upon the money, but the sum required is so large that his one thousand dollars is a negligible factor. The 100,000 men cannot be brought together at the time when this investment offers itself, so it has to be passed over to the man of large capital, who is equipped for handling such investments. Everyone who has had small sums to invest has experienced this difficulty, and has, no doubt, often asked himself how the small investor can be placed on a par with the large investor; has asked how the really choice investments which result from the development of the country can be placed to his hand in available shape. This important economic function is admirably performed through the medium of life insurance. The company gathers twenty dollars here and fifty dollars there, a hundred dollars there and a thousand dollars in still another place. Soon a large volume of money is ready for investment. With a hundred thousand dollars, or five hundred thousand dollars, or a million dollars, the company can go into the money markets and buy securities of the very highest class. The men who desire to borrow money for the development of business interests know that, if their security is first-class, life insurance companies are ready to lend them money. By this means the man who has fifty dollars to invest in a given year insures its earning the same rate of interest upon the same safe security as can be obtained by the man with a million dollars to invest. It is hard to overestimate the value of this to the community. The investors know that the life insurance companies have money to invest, and so they offer them the securities they have to sell. Opportunities that would never be offered the individual are offered the insurance company. No other medium for the investment of savings equals that of the life insurance company. There are, of course, other forms. Many persons patronize the savings banks. The savings bank, however, operates in a limited territory, and is not open to persons in small and medium size communities. The life insurance company, however, offers the same advantage to the farmer as it does to the resident of the metropolis. The man who, after he has sold his grain, his potatoes, his live stock, has a hundred dollars to invest, can do it just as satisfactorily as the man who does business in the

heart of the financial district of a great city. Then, again, this man who lives in an out-of-the-way place can time his life insurance investments so as to meet the time when his money is ready to invest.

He sells his property at about the same time every year, and he can have his premiums made payable at that time. If he is delayed a month or six weeks in receiving his money, the insurance company is willing to extend his time of payment. The life insurance company is, therefore, peculiarly well fitted in dealing with all kinds of people in all sections of the country and under all circumstances. In a sentence, the company accommodates itself to the needs of its patrons. It is always ready to help a man save his money and secure its highest earning power.

Another side of this power of accumulated capital is to be found in its aid in the development of business. The investments of a life insurance company are to be found in all parts of the country. They include all kinds of safe and profitable investments. The man who desires to borrow a thousand dollars on a first mortgage finds the company ready to do business with him. The man who plans the erection of an apartment house finds that, when his plans are completed, the insurance company is ready to finance the investment up to the limit of wise financiering. The country bank which has a larger capital than its citizens can purchase, can sell its shares to the insurance company. The railroad company planning to improve its property can sell its bonds to the insurance company. The municipality bonding itself for park improvements, additional water supply and other municipal improvements, requiring the use of money for a long period of years, always expects a goodly amount of its bonds to find their way into the strong boxes of life insurance companies. So the life insurance company brings together the different persons and corporations who need to borrow large sums of money and the great multitude of individuals who have small sums to loan upon terms that are satisfactory to both. Were it not for the life insurance company, it would be difficult to collect these small sums and make them available for development purposes. There is scarce a great enterprise which has not had the use of some of the money of the small investor by reason of the wonderful development of life insurance. Borrowers, like policyholders, are to be found all over the country. Perhaps the highest

tribute which can be paid to the life insurance company as a financial factor in the business life is the care shown in its investments, the security which they require and the fractional percentage of money which is lost by the companies through lack of wisdom in the making of investments.

Still another factor is the distributions of the life insurance company to its policyholders and their beneficiaries. To the policyholders, in the shape of dividends, maturing of limited payment policies and endowments. To the beneficiaries through the death claims which are being paid from day to day and from week to week. A man has been paying premiums for a series of years on an endowment policy. In due time the policy matures. The face of the policy is paid to the policyholder, and this money is thus placed in his hands for reinvestment for the advancement of his fortunes and the well-being of the community. One has only to look over the list of payments as printed in the *Insurance Press* from time to time, and their aggregates at the close of the year, to see what a large sum of money is being sent back into circulation all the time through the payments of life insurance companies. Here is a town of five thousand inhabitants. Perhaps, in a given year, the life insurance companies may pay in that town $50,000 on account of matured policies. This at once becomes, in a sense, local capital, ready to build up the enterprises of the community. It has been gathered over a series of years, loaned out by the company at a satisfactory rate of interest, gone into the lines of going business to make them more efficient, and now, after it has completed its round of journey, it is sent back into the community from whence it came in an accumulated form. The fifties, the hundreds, the thousands which were paid as premiums would not have been of very great value, apparently, at the time they were collected. The community has not known where this money was invested nor how it was doing its work. It comes back now, however, as a lump sum, ready to renew its multiform duties of helping development and prosperity.

There is still another way in which the collecting of this money has helped the community. The men who sell the insurance receive a commission on the premium, and this they spend in the place where it originated. It has given men employment, has supported their families as it was gathered. To be sure, this is only an incident of the business, but it serves to show how wide are the rami-

fications of life insurance, how many persons it touches, how many it helps and how it makes for the progress of the entire social life.

Let me briefly recapitulate. Life insurance is based upon the value of the individual and the necessity for protecting that value. In its inception, it is individual. It treats with individuals as individuals, and also assembles them so that they can be considered as masses of individuals. From this starting point, which is purely social economic, a superstructure has been built up and is still building, which touches the entire life of the community in its social, economic, financial, material, and ethical life. Wherever man's value is apparent, there life insurance has its field. In the home, in the city, in the state, counting room, the factory, it stands ready to help man to more perfectly carry his responsibilities, which he has created. As an economic force, it reaches all departments of life. It reaches effectively where nothing else so far devised can reach successfully. It protects man's earning power and insures the continuity of that power whether man remains here or crosses to the other shore. It helps to lessen the army of unfortunate dependents upon the state, to lighten the ills of genteel poverty. It helps the young to get a decent foothold in the struggle of life. It is, in the realm of the individual, the fulcrum upon which to rest the lever of opportunity. Life insurance is a combination. It is individualistic, it is accumulative, it is material, it is social, it is economic. Despite all its shortcomings, it is the greatest economic factor of the twentieth century. It is developing at a marvelous rate, but it has not as yet caught up with its opportunity. There is need for more insurance, more people need its helpful influence. It is the flower of the struggle of self for others. No man who can secure insurance, and has not taken it, has fulfilled his whole duty. The life insurance agent who comes to ask a person to sign an application, is rendering a kindness. He is helping that person to become a more perfect factor in the development of human society. He is enabling him to more perfectly fulfill his relations to his fellows and to his country. Take life insurance as soon as possible, and it will be all the better if the taking of it involves sacrifice, for it is by sacrifice that the world makes progress.